CHAPTER 2

THE GROWTH AND EXPANSION OF SUPERMARKETS AND THEIR IMPACT ON THE FOOD SUPPLY SYSTEMS IN DEVELOPING COUNTRIES

2.1 Introduction

There has been a rapid rise in the number of supermarkets in developing countries including some countries in Africa in the past 10 years (Weatherspoon & Reardon, 2003; Brown, 2005). Multinational chain supermarkets have expanded and have increasingly become involved in food retailing which may have led to changes in the way food is produced and marketed in both developed and developing countries. The growth and expansion of multinational supermarkets in the food-retail sector is a global phenomenon that is transforming agrofood systems in many developing countries.

This chapter provides a review of literature on the growth and expansion of supermarkets and related issues resulting from the increased supermarket involvement in retailing food in developing countries, Africa and SADC countries.

2.2 An overview of supermarket expansion in developing countries

There is a growing interest in what is happening in the agrofood systems of developing countries as the way food is marketed is changing. Across most countries in the developing world (South America, Central America, Asia and Africa) various authors report increased involvement of multinational chain supermarkets in food retail (Reardon & Berdegué, 2002; Shepherd, 2005). These studies highlight pertinent issues such as how supermarket-retailing activities affect the poor and whether the poor farmers are left out of these emerging markets (Reardon & Berdegué, 2002).

Subsequent empirical studies in various countries of Latin America support the findings of Reardon and Berdegué (2002). For example, in Argentina, supermarkets and fast-food sectors grew rapidly in the 1990s (Gutman, 2002; Ghezan *et al*., 2002). The resulting reconfiguration and consolidation of food retailing in Argentina during the 1990s profoundly changed the marketing of food and agricultural products. The changes in the agrofood systems were also influenced by globalisation and trade liberalisation. These changes enabled foreign multinational retail companies such as Disco (Velox group of Uruguay), Carrefour (France) and Royal Ahold (Netherlands) to invest in the food-retail sector in Argentina in the period 1996 to 2001 (Ghezan *et al*., 2002). The expansion of the multinational retailers resulted in the closure of some small businesses and domestic independent supermarket stores that could not compete.

Recent studies carried out in south-east Asia[6] showed that supermarkets are growing rapidly and are becoming important and dominant in the food-retail sector across the region. The growth of supermarkets in south-east Asia showed a similar pattern as those of Latin America (Reardon *et al*., 2003). The take-off stage of supermarkets in south-east Asia occurred about five to seven years after Latin America, but the supermarkets in this region are registering even faster growth than in Latin America.

China has also witnessed a phenomenal growth of supermarkets in the 1990s. Supermarkets started from the coastal Guangdong province in 1990, and the number of store units of the various supermarket chains increased dramatically especially from 1998 to 2002, with an annual growth of 20-30% (Xiang *et al*., 2004). There were 2 500 supermarkets in 1995 and these have expanded to 53 100 in 2002 (Xiang *et al*., 2004). Supermarket total sales that were only 0.18% of the total retail sales in China, had increased to 11.2% by 2002 (Xiang *et al*., 2004).

The rapid growth of supermarkets in China has been facilitated by changes in government policies such as change from centralised to market economy and promotion of increased sale of fresh produce and other processed food products through the supermarkets in the last five years. Trade liberalisation coupled with increased liberalization of FDI policies has enabled large multinational supermarkets such as Wal-Mart, Carrefour and other multinational supermarkets to invest in the Chinese retail sector since 1995 (Xiang *et al*., 2004).

[6] South-east Asia comprises 10 countries: Malaysia, Thailand, Philippines, Indonesia, Vietnam, Cambodia, Lao Peoples Democratic Republic , Myanmar, Brunei and Singapore.

The entrance of these large firms resulted in the closure of smaller domestic supermarkets that could not compete with the multinational retailers. In the early 1990s, supermarkets first developed in south and east coastal China, in large cities such as Guangdong, Shenzhang, and Shanghai; and major northern cities such as Beijing, Tianjin and Dalian (in the second half of the 1990s); then in inland cities, such as Wuhan (in the late 1990s and 2000s), and finally in the western region and small cities in the past one to two years. In China, large storage facilities and bulk merchandising gave supermarkets an advantage over small shops in selling processed, packaged, and bulk foods, such as edible oils, grains, noodles and condiments (Xiang *et al*., 2004).

2.2.1 Evolution of food retail markets in developing countries

In the 1960s and 1970s, food marketing in developing countries was done through traditional distribution channels mainly through spot markets and other informal markets (Figure 2.1). These markets approach the perfectly competitive model, and forces of supply and demand determined the price. Farmers were price takers, and barriers to entry and transaction costs were low. Small-scale producers could easily access the traditional food markets. The supply chain did not contain much processing or packaging especially in the case of fresh fruit and vegetables. These products were perishable and hence needed to be used within a few days after harvesting if processing and preserving facilities did not exist. The risk of spoilage was high, and therefore marketing of these products at the nearest markets was the norm. These markets were characterised by volatility in that, during periods of excess, production prices received by farmers dropped and vice versa. In the traditional markets, issues of quality, grades and standards were not very important and in most cases no grades and standards were imposed. In the 1960s and 1970s, food marketing was characterised by farmers producing bulky primary commodities with little or no product differentiation and brands.

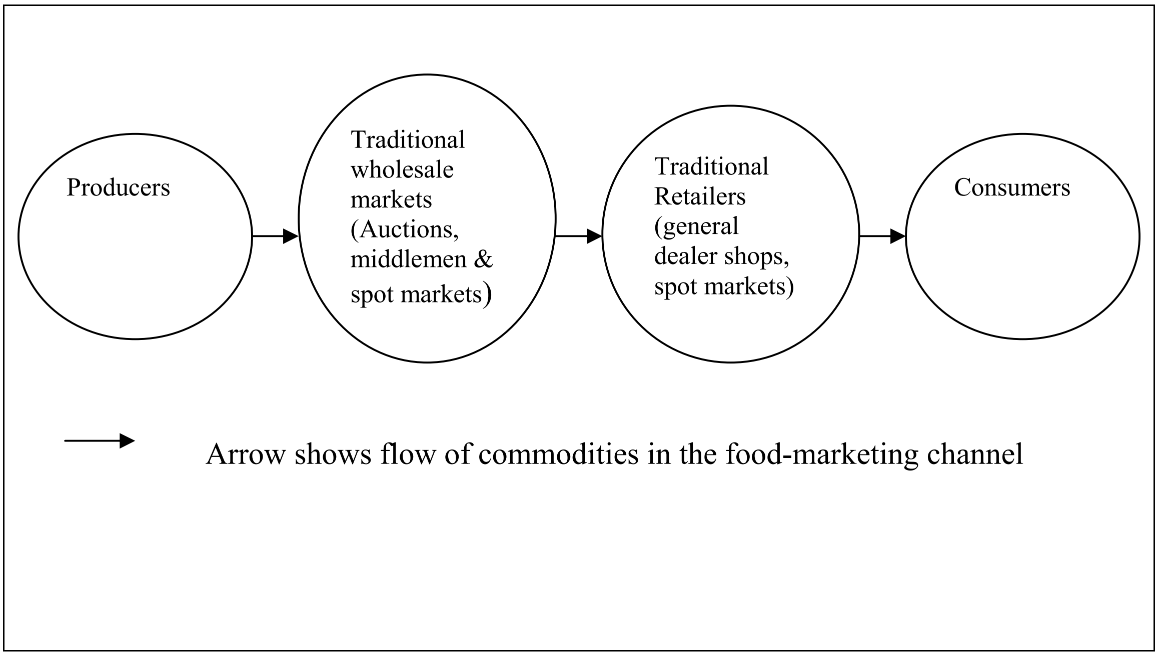

Figure 2.1: Early food-marketing channels in developing countries in the 1960s and 1970s

Food markets in developing countries are evolving since more food is being sold through large-format stores (Ghezan *et al.*, 2002). A good description of the changes in the agrofood system in developing countries is provided by Gutman (2002) as he explained the changes in Argentina. These changes are a result of globalisation, trade liberalisation, changes in technology and changes in consumer tastes and preferences. At present agrofood systems in most countries are characterised by more complex local and global supply chains involving producers, processors and large retailers (Figure 2.2). These complex supply systems are co-ordinated via complex exchange processes such as contracting, increased use of private grades and standards and corporate networks (Barrientos *et al.*, 2005). The supply chain includes food manufacturing/processing of fresh agricultural products into more non-perishable products such as long-life milk and canned fruit and vegetables. Supermarkets have distribution centres where value-adding processes such as sorting, grading, washing, cutting, cooling, packaging, brand naming, storage, freezing and transportation are carried out in order to improve and preserve high quality food which may be consumed later than when it was produced or it can be transported to consumption centres far from where it was produced.

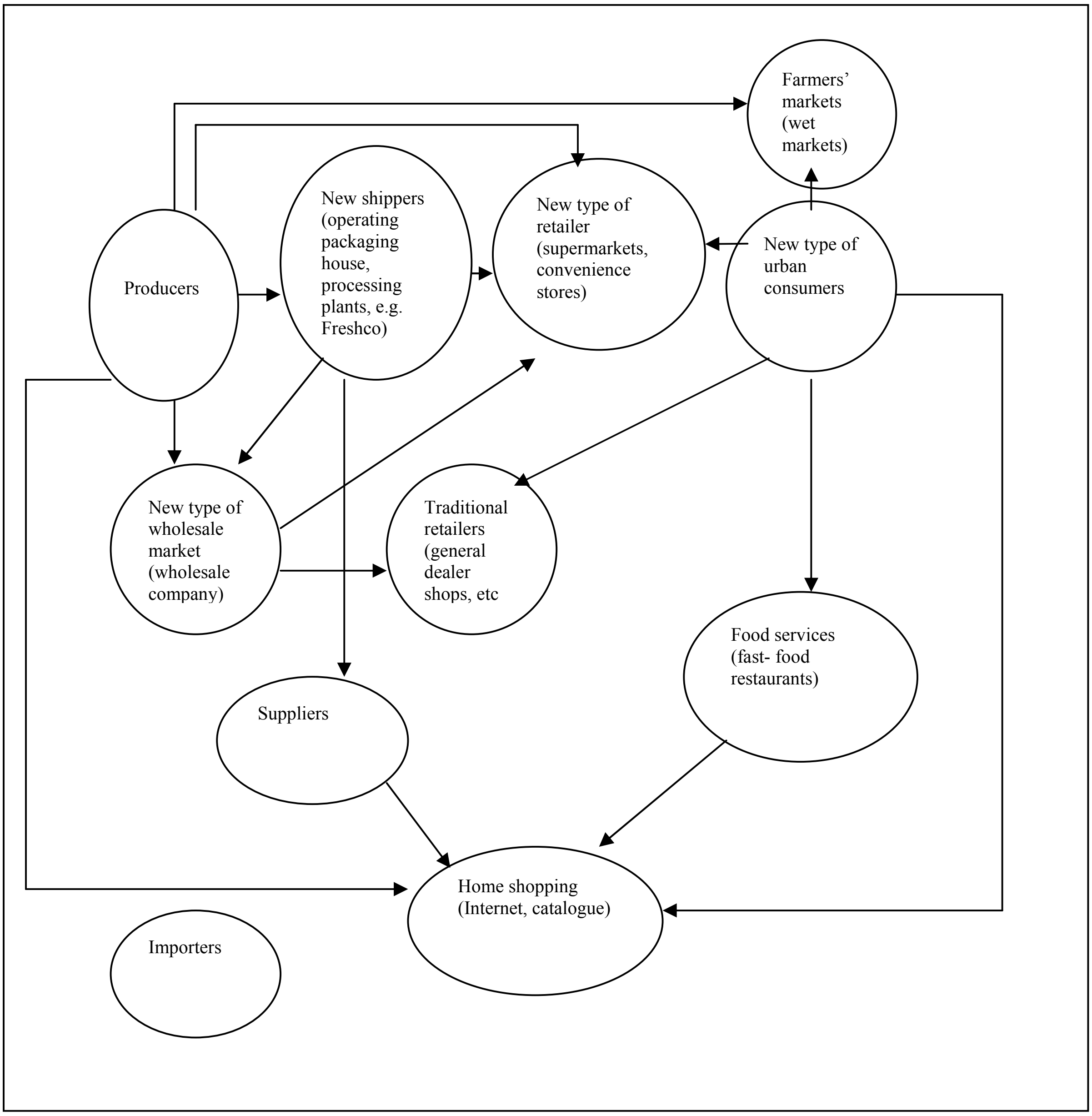

Figure 2.2: The agricultural supply chain in developing countries since the mid 1990s

Source: Adapted from Choe (2002)

Formal food retail sector

The food retail systems consist of the formal and the informal sectors. In the formal sector most food retailers are large and are able to source directly from farmers and food manufacturers and processors.

Box 1: Specialised FFV companies and wholesalers

In the SADC region South African chain supermarkets use specialised companies and wholesalers to source FFV for their stores.

Freshmark: is the FFV sourcing division of Shoprite supermarkets. It operates in South Africa and some African countries where Shoprite has invested.

Freshmark South Africa

- Sources and procures fruit using 9 distribution centres in the main cities of South Africa
- Buys fresh produce directly from farmers in South Africa and supplies to Shoprite stores
- 120 refrigerated trucks deliver produce to 440 Shoprite/checkers supermarkets and hyper stores
- Imports fruit to ensure diversity and availability of fruit throughout the year
- Small-scale farmers near the distribution centres participate in the FFV supply chain of Freshmark
- Use private grades and standards in ensuring food quality and safety.

Freshmark Zambia

- Sources FFV for shoprite stores in Zambia using 1 distribution centre located in Lusaka mainly for Shoprite stores in Zambia.
- Buys fresh produce from both small-scale (10%) and large scale (90%) farmers in Zambia.
- Use verbal contracts, grades and standards to maintain food quality.
- Imports fruit from South Africa to Freshmark Zambia.
- Use refrigerated trucks to supply FFV stores in Zambia.
- 95% procured FFV supplied to Shoprite stores in Zambia and 5% to other buyers such as hotels and small-scale traders.

Freshmark Namibia

- Sources FFV for shoprite stores in Namibia using 1 distribution centre located in Windhoek mainly for Shoprite stores in Zambia
- Buys FFV from large scale farmers
- Imports fruit and vegetables from South Africa for Shoprite Namibia
- 95% procured FFV supplied to Shoprite/ Checkers stores in Namibia and 5% to other buyers such as small-scale traders.

Freshco: Is a fresh fruit and vegetable sourcing company specialised to supply fruit and vegetables to export markets but also supplies to chain supermarkets. It operates in South Africa and recently in Namibia.

- Sources FFV directly from local farmers using state of the art distribution centres and supplies to the export markets such EU. Maintain international food quality standards in order to access export markets and use contracts with farmers.
- Supplies to chain supermarkets in South Africa such as Pick 'n Pay
- Has a depot in Namibia. Imports from South Africa and supplies to Pick 'n Pay stores in Namibia
- Started sourcing locally to meet government regulations but only from large scale producers

The FFV sourcing companies and specialised wholesalers are a mark of the expanding supermarket sector, a trend which is common to most countries. As a mark of centralization supermarkets begin to use distribution centres and specialised and dedicated suppliers such as Hortifruit in Central America. Freshmark differs from other specialised wholesalers such as Hortifruit in that it sources mainly from South Africa or from the country of FDI for one supermarket chain that is Shoprite whereas Hortifruit sources from neighbouring countries and supplies to different supermarket customers. Evidence of Freshmark sourcing from other African countries and transporting to South Africa are minimal. On the other hand Freshco is an FFV exporting company which may also supply to domestic supermarkets.

Specialised wholesalers in Namibia and Botswana take over the sourcing and procurement function for FFV and procure for the supermarket that they have contracted with. These mainly source FFV from the traditional markets such Johannesburg Fresh Produce market and from large-scale local farmers to their refrigerated warehouses. They then supply to the supermarket as and when produce is required.

At present, the supply chains of supermarkets and other large-format retail stores might exclude the traditional wholesale markets (Weatherspoon& Reardon, 2003) and small-scale farmers as supermarkets use preferred suppliers like Freshco supplying a number of supermarkets such as Pick 'n Pay, and Freshmark supplying Shoprite. This is partly the result of major retailers consolidating and integrating their supply chains to reduce costs and offer high quality cheaper food to consumers in urban areas.

In these evolving food systems, there is elaborate use of technology in the exchange process. There is increased use of efficient logistics, transport and information technology (use of e-commerce) in sourcing/procurement of food by supermarkets. Technological innovation in information technology is very important in transacting business by these multinational firms. Most of them have embraced supply chain management to improve efficiency in food-supply chains. These changes in the food-retail sector are a formidable challenge to small-scale farmers and processors because substantial investments are required to be able to participate in these transforming supply chains.

Due to improvements in logistics, transport and information technology, food imports especially in dry and processed food categories play an important role in food chains of some countries. Importation of food products across borders is important in the majority of SADC countries. Cross-border commodity supply chains are developing between South Africa and most SADC countries, offering consumers a wider choice of both fresh and processed agricultural products. In some countries, imports occupy a very important role in the supply chain, as the production capacity has not been achieved because of various constraints including harsh environmental conditions (Botswana and Namibia). For example, Botswana produces about 20% of its fresh fruit and vegetables requirements, the balance is imported from South Africa (over 70%), other countries in the SADC and the rest of the world (Republic of Botswana, 1997).

Given the scope of this study it is not possible to determine whether the increased food imports into host nations will suppress the growth of domestic food processing companies or whether domestic firms will improve quality and food standards as they observe imported goods on supermarket shelves and cooperate with supermarkets to produce these goods to meet the demand of the chain supermarkets. A more detailed study may be required to unpack the indirect impact of processed food imports on domestic producers of staples/commodities and the rural and urban poor.

Informal food retail sector

The informal sector is important and growing in most developing countries in Latin America, Africa and Asia. It is a source of employment and income for a large number of people. It is comprised of street traders (vendors and hawkers), traders on traditional markets among others. There is a growth in the numbers of people working in the informal economy, either self-employed in unregistered enterprises or as wage workers in unprotected jobs (Devenish & Skinner, 2004).

The informal sector activities are spread out in a number of industries. For example a breakdown of the informal sector in South Africa shows that approximately 47% of these activities are in trade, 13.6% are in construction, 10.4 % in manufacturing, 9.3% in community services, 8.2% in private households, 6.3% in transport and 3.9% in provision of services (Devenish and Skinner, 2004). Trade is among the most prominent activity in the informal sector and street trading is one of the biggest sectors of the informal economy in South Africa (ILO, 2003). For many women, street trading is an important source of feeding themselves and their families (ILO, 2003). There were approximately half a million street traders in South Africa in 2000. More than 70% of street traders were involved in selling food in cities and towns of South Africa. Street vending has been on the increase since the end of apartheid in1994 because the new government does not prevent street trading in the same way as the apartheid government and the lack of jobs in the formal sector has forced many people to try and earn a living through street trading. Street trading is regulated through by-laws in cities and towns in Africa.

Despite the demonstrated importance of the informal sector in employment and income generation in most African countries, the value of their contribution to GDP is unknown in most countries. This is because there are no records kept of these activities. Even on designate markets where urban authorities collect revenue from traders (such as Soweto market in Zambia, Race course market in Ghana) no records are kept of trade volumes and quantities. This makes it difficult to estimate the actual value of informal trade in food and other commodities. This state of affairs is further aggravated by the fact that most statistical services in Africa exclude informal activities from national accounts estimations.

Cross-border informal trade

In Southern Africa, trade liberalization and regional integration has lead to opening up of borders, which has resulted in increased informal cross-border trade. The goods traded in the informal cross-border trade are purchased from formal wholesale and retail shops (Peberdy, 2002). According to Perdedy (2002), there has been an increase in cross-border trade between South Africa and SADC countries. Goods that traders move from South Africa to their countries include: Fresh fruit and vegetables, processed FFV, manufactured goods such as mattresses, stereos, duvets, household goods. Goods moved from SADC to South Africa by these traders include: fish and shell fish, handicrafts, curios, crotchet work, traditional dresses, coal, vegetables, processed foods (rice, oil, sugar, tinned foods), meat, chicken, eggs and milk (Peberdy, 2002). The trade is informal as it involves small entrepreneurs, traders do not access preferential tariff agreements; traders may buy or more often sell in the informal sector markets and traders do not always pass through formal import and export channels and may be involved in smuggling part or all of their goods (Peberdy, 2002).

2.2.2 Evolution of supermarkets' procurement and inventory-control practices

Procurement of merchandise by supermarkets have been revolutionised in developed countries. As supermarkets from developed countries move and invest in developing countries they import these practices into developing countries. Therefore, in this section a description of the evolution of procurement and inventory control of supermarkets in developed countries is described with the assumption that it can be applied to large chain South African and domestic supermarkets investing in Africa.

Procurement and resale of inventory are important to all merchandise retailers such as supermarkets. The ability of supermarkets to co-ordinate inventory procurement with their vendors can bring an insurmountable competitive advantage (Levy & Grewal, 2000). Most supermarkets' supply-chain systems have been changed to improve procurement, inventory management and replenishment practices (Figure 2.3).

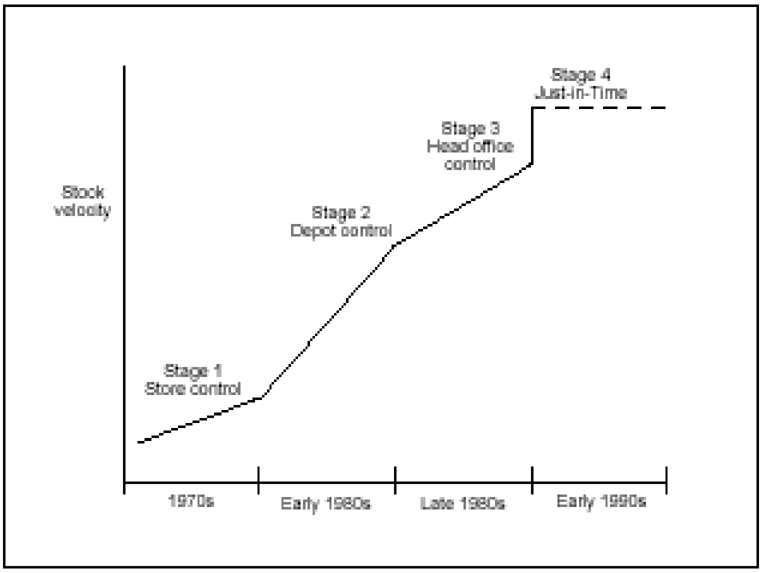

Figure 2.3: Evolution of supermarket procurement and inventory-control systems in developed/developing countries

Source: Whiteoak (1994)

Supermarkets' procurement has evolved from store control in the 1970s to just-in-time (JIT) replenishment in the early 21st century. These developments have taken place in stages (Figure 2.3). Stage 1 of the retail (supermarket) evolution was characterised by direct delivery from suppliers to stores, with store inventory levels controlled by the branch manager. Usually, one order was placed each week on a week's delivery lead-time, with up to five weeks' stock held in store. In stage 2, which occurred in the early 1980s, retailers (supermarkets) established regional distribution centres (RDCs). During this period, there was a gradual transfer of stock and stock control from individual stores to RDCs. Stock levels were significantly reduced by this consolidation. Stage 3 of the development of the supermarket supply chain occurred in the late 1980s and early 1990s and was characterised by the control of replenishment being transferred from RDCs to head offices, with further improvements in order to review frequency and lead times (Whiteoak, 1994). Currently, the retail supply-chain management (SCM) in most developed countries is in stage 4, where supermarkets are moving towards just-in-time (JIT) replenishment of inventory. This period features a centralisation of warehousing, inventories and inventory control coupled with a trend towards JIT replenishment methods (Whiteoak, 1994). This period is also characterised by increased use of information and communication technology (ICT), efficient response to customer demands and reduction in inventory levels held at individual stores. This consolidation of activities in the supermarket supply chain may make it more difficult for small-scale and medium enterprises to do business with supermarkets, as these changes may create barriers to entry for small-scale suppliers.

These changes that characterise supermarkets in developed countries are also common to the major South African supermarkets such as Shoprite, Pick 'n Pay, Spar and Woolworths. For example, Shoprite in its 2006 annual report states that the company had improved its supply-chain management infrastructure and have integrated their 763 stores in 16 countries electronically into a central database and replenishment system. Now the company is able to provide 15 000 product lines in its supermarkets, some in remote locations outside the South African borders. This system is backed by a sophisticated information technology (IT) system, transportation and logistics system (400 trucks and trailers, half of them refrigerated) enabling Shoprite to further refine inventory management, improve product availability and increase frequency in replenishment through a centralised distribution. This improvement in supply-chain management has meant a reduction in the inventory that is kept at individual stores. This implies Shoprite is moving towards JIT replenishment systems. Other major multinational supermarkets (Spar, Pick 'n Pay, Woolworths) have also developed sophisticated SCM systems of the calibre of Shoprite and other modern supermarkets. By improving on logistics, transport systems and IT technology, most of these supermarkets operate regional DCs making it possible for just-in-time deliveries of products to their stores.

2.3 Supermarket involvement in food retailing in Africa

In the last five years, most studies examining supermarket phenomena in Africa have focused on the impact of foreign supermarkets on the export of high value products from Africa to supermarkets in Europe (Barret *et al*., 1999; Dolan & Humphrey, 2000; Pimbert *et al*, 2001). Horticultural-produce trade from African countries such as Kenya and Zimbabwe has drawn a lot of interest especially related to their impact on small-scale farmers. Issues of fair trade have occupied a lot of attention because of the increased volume of this trade and more so the complex channels that have emerged to meet the needs of consumers in developed countries such as the UK and the European Union. Supermarkets that desire to meet the all-year-round supply of fresh fruit and vegetables consumption requirements of their customers in these countries have spearheaded this trade (Freidberg, 2003).

Due to the increased trade in fresh fruit and vegetables from Kenya to the UK, supermarkets in the UK were having a profound impact on Kenyan producers through the importation of fresh fruit, vegetables and flowers (Dolan & Humphrey, 2000). Using a highly sophisticated system of procurement, the UK supermarkets ensure a continuous supply of fresh fruit and vegetables from Kenya to UK supermarkets. Procurement is done through importers who buy from wholesale markets and also directly from farmers (large producers). Though supermarkets in the UK do not own factors of production (land and labour), in Kenya they dictate what is to be produced. The study by Dolan and Humphrey (2000) showed how the globalisation of the food sector can result in sourcing of agricultural products from very remote places with desirable or adverse effects on small producers.

One of the pioneering studies to review supermarkets and their involvement in food retail within Africa was carried out by Weatherspoon and Reardon (2003). This study was based on a review of literature and qualitative interviews of some supermarkets' directors (Pick 'n Pay and Shoprite). According to Weatherspoon and Reardon (2003), there has been a rapid rise of supermarkets in Africa with resultant implications for agrofood systems and the rural poor. The study covered South Africa and Kenya where supermarkets are fairly well developed. There are about 1 700 supermarkets with a total market share of 55% of the food retail market in South Africa. Supermarkets in South Africa have been growing very fast and consolidating through mergers and buying out of smaller independent retailers. The authors showed that the four larger supermarkets in South Africa have moved from the major cities to rural towns and poorer neighbourhoods and into other countries of Africa, mainly in SADC.

In the same paper, Weatherspoon and Reardon posit that supermarkets offer a challenge as well as an opportunity to local producers. This is an opportunity because there is scope to increase household income for rural households if these households are able to produce and supply to supermarkets; and a challenge to small farmers and processors that need to overcome many transaction barriers in order to supply to the supermarkets. The study concluded that for the poor to be involved and benefit, it will require reformulation of development policy and programmes that are specifically designed to encourage small-scale producers to supply to the supermarket market. This calls for redefining public sector roles and its involvement in the food-supply chains. The assumption made is that the involvement of small-scale farmers and processors in the supply chain of supermarkets will automatically benefit them. On the other hand, it may be possible that the high standards of quality and other contracting practices that mark supermarket-procurement systems imposed on them may make them worse off. To unpack some of these issues it will be necessary to analyse the supermarket supply chains to understand who is gaining and who is loosing in the dynamic and changing systems. A more in-depth study that quantifies impact on small-scale farmers and processors is necessary to be able to determine how farmers and agrofood systems are actually affected by supermarkets' activities in the region.

Subsequent studies on this topic have followed since the Weatherspoon and Reardon paper. These include among others the Regoverning Markets Project (Regoverning

Markets Project, 2004), a collaborative research initiative undertaken to analyse the growing concentration in the processing and retail sectors of national and regional agrofood systems in developing countries. The study focused on how markets are restructuring as a result of globalisation and market liberalisation. Phase 1 of the study was carried out in 2004 in five regions[7], covering 17 countries. For Africa, two regions were covered; southern Africa (Zambia and South Africa) and eastern Africa covering Kenya and Uganda. The study used rapid appraisal and survey methods. Data was collected using qualitative survey methods such as key-informant interviews, focus-groups and semi-structured interviews. Stakeholders in the food chain of selected products were interviewed. The east African study showed that supermarkets were increasingly becoming involved in food marketing but these markets served upper and middle-income groups (Nyoro *et al*., 2004).

Various reports from the five regions concluded that supermarkets have become important in food retailing to varying degrees. The involvement of supermarkets had resulted in changes in agrofood systems. The changes resulting from this restructuring had made it difficult for small-scale farmers and processors to access the vertically integrated and concentrated markets. Most of these reports highlighted the need for governments to be involved in the emerging markets as facilitators. Proactive policy changes were also required to facilitate the participation of small-scale producers and processors to secure the livelihoods of small-scale farmers and rural communities in developing countries. In order to put supermarkets' impact on small-scale farmers and processors in the SADC in perspective, a description of the food-retail sectors in South Africa and the SADC, the changes taking place in the agrofood systems as well as the major South African supermarkets involved in food retail are discussed below.

[7] These studies focus on how agrofood systems are changing in the advent of supermarkets' rapid expansion into food retailing in these regions and how to secure markets for small producers. The study covers five regions (eastern Africa and southern Africa, Latin America, China, south Asia and south east Asia and central and eastern Europe). For more detail, visit the Regoverning Markets website (http:// www. Regoverningmarkets.org).

2.4 Growth and expansion of supermarkets in South Africa

OK Bazaars introduced the concept of supermarkets in South Africa in 1948 (Strydom, 1989). This implies that supermarkets have been in existence in South Africa for some 60 years and are, therefore, not a new phenomenon in South Africa. From 1948 onwards, OK Bazaars continued to grow and by 1986 there were 205 stores with a turnover of R 2 billion (US$285.7million). These consisted of 164 department stores and supermarkets, 26 furniture stores, seven Hyperamas, six House-and-Home stores and two filling stations. Other supermarkets started later such as Checkers supermarkets in 1956, Spar South Africa in 1960, Pick 'n Pay in 1967 and Shoprite in 1979.

The growth and expansion of supermarkets in South Africa has been gradual but the pace of expansion of chain supermarkets in South Africa increased in the mid-1990s (Weatherspoon & Reardon, 2003). Most supermarkets have expanded their market share through buying other supermarkets, franchising and forming partnerships with other supermarket chains both in South Africa and other African countries (for example, Shoprite acquired Checkers in 1993) and OK Bazaars in 1997.

Currently, South Africa has the highest concentration of supermarkets in Africa. South Africa's well-developed, oligopolistic retail market (dominated by a few large companies), meets the domestic demand for food, beverages and groceries (Economist Intelligence Unit, 2004). South African supermarket retailers often trade under a variety of names, which obscures the concentration within the sector. This is most obvious in food retailing where there are four main companies (Pick 'n Pay Group, Shoprite Holdings Ltd, Woolworths and Spar) that trade under about ten different store names. Shoprite, for example, operates stores such as Shoprite supermarkets, Checkers, Usave, Sentra, 8 Till Late and Checkers Hyper.

The market share and retail sales of the four major supermarkets in South Africa involved in food retail are shown in Table 2.1. In 1993, Shoprite had the biggest total retail-market share of 43.4% which in 2007 has been reduced to 27.8%. A possible reason for the decline in Shoprite's market share in the South African market may be the firm's aggressive expansion into other African countries as well as other countries in the world. Among those that have gained in the market share is Pick 'n Pay, which is now the leading supermarket chain in South Africa. Spar has also grown steadily from a market share of 18.3% in 1993 to 26.9% in 2007. Woolworths has also registered some growth in its market share from 4.2 % in 1993 to 9.2 % in 2007. In terms of retail sales, all four major supermarkets have posted impressive growth since 1993. The market shares of the other supermarkets or independent retailers have dropped from 11.6% in 1993 to 3.2% in 2007 (Table 2.1). This may be a result of the closure of small independent retail supermarkets and retail shops that could not compete against the larger chain supermarkets. The top four supermarket chains in South Africa had a market share of over 70% of the formal food and groceries retail market in 2007.

Table 2.1: Market share (%) and retail sales of various South African supermarkets

Supermarket chain	**1993**		**2003**		**2007**	
	Market share (%)	Retail sales (US$ million)	Market share (%)	Retail sales (US$ million)	Market share (%)	Retail sales (US$ million)
SPAR	18.3	750.7	26.1	2 758.9	26.9	3 129.0
P 'n P	22.5	917.6	35.4	3742	33.0	5619.6
Shoprite/Checkers	43.4	1 780.4	29.4	3 107.8	27.8	5564.3
Woolworths	4.2	172.3	6.9	729.4	9.2	2663.1
Others	11.6	475.9	2.2	232.5	3.2	427.7
Total	100	4 102.3	100	10 570.3	100	17 403.7

Source: Supermarkets Annual Reports (2007) and Planet Retail (2006).

According to survey results of this study, all supermarket managers interviewed reported that they faced competition from other chain supermarkets. This implies that supermarkets in South Africa and other SADC countries do compete against each other. Although the shops compete against each other, they do so from respective market niches. Woolworths, for example, tends to focus on the high-income market, whereas Shoprite focuses on the low to middle-income end of the market. Pick 'n Pay and Spar tend to focus on the middle to upper income market segments, Spar being more associated with smaller stores whereas Pick 'n Pay has larger supermarkets and hypermarkets.

These large sophisticated retailers are mostly located in shopping complexes (malls) and usually form the anchor tenant in these complexes located in the suburbs and outskirts of most cities. The major retailers are now slowly entering the "townships"[8], and this is likely to be an important growth area in coming years, which will probably put many smaller retailers in these areas out of business. Shoprite, Pick 'n Pay, Metro and Spar are also expanding enthusiastically into countries surrounding South Africa. These all have opened stores in Botswana, Namibia, Zimbabwe, Malawi, Mozambique, Zambia and other southern and eastern African countries. With their strong operational experience, financial strength and concepts adaptable to local demands, South African retailers are well placed to explore and conquer these embryonic markets (Planet Retail, 2004).

2.5 Growth and expansion of South African supermarkets in SADC countries

The major multiple chain supermarkets in South Africa have invested in other SADC countries and Africa (Table 2.2). The highest numbers of supermarket stores are found in South Africa, whereas in other SADC countries, the largest numbers of supermarkets are found in Zimbabwe, followed by Botswana, Namibia and Zambia.

Shoprite is the most expansive retailer, having entered four new countries over the past three years, with its operations now spanning a total of 16 African countries. By comparison, Pick 'n Pay operates stores in six other African countries. Due to the relative youth of the network, sales from foreign operations are still small, accounting for 8% of Shoprite sales and slightly less than 8% of Pick 'n Pay. In most countries, Shoprite has established its supermarkets in cities and adopted them to the local clientele. Recently, it has created the Usave chain, a limited assortment format (with 600 lines) inspired by European discount concepts. This format has been chosen as a major vehicle for expansion into southern African countries.

[8] Black neighbourhoods established under South Africa's past racist policies of separate group areas.

Table 2.2: Type and number of South African supermarkets in SADC (2007)

Country	Shoprite	Pick 'n Pay	Spar (multinational)	Woolworths (RSA)	Total number of stores	% of stores
South Africa	718	552	675	320	2265	85.4
Angola	8	0	0	0	8	0.3
Botswana	10	19	26	11	66	2.5
DRC	0	0	0	0	0	0
Lesotho	7	0	0	2	9	0.3
Mauritius	1	0	11	1	13	0.5
Malawi	5	0	0	0	5	0.2
Mozambique	5	0	0	0	5	0.2
Namibia	65	15	19	4	103	3.9
Seychelles	0	0	0	0	0	0
Swaziland	7	6	7	3	23	0.9
Tanzania	5	0	0	1	6	0.2
Zambia	18	0	2	1	21	0.8
Zimbabwe	1	56	70	2	129	4.9
Total	850	648	810	345	2653	100

Source: Adapted from various supermarkets' annual reports (2007).

Metro Cash and Carry South Africa (MetCash) is an important cross-border player with its network of "cash and carry" stores, supermarkets and neighbourhood stores. Since 1999, it has opened over 250 stores and now operates or services over 950 stores in nine African countries (excluding South Africa). Its "cash & carry" stores are an important vehicle for the development of modern retail formats in developing countries as they provide products for many independent supermarkets, local shops and informal retailers. Shoprite and Metro have ventured further-a-field than Spar. The Spar chain is mainly active in countries bordering South Africa, that is, in Namibia, Botswana, Zimbabwe and Swaziland but in December 2003 it opened a store in Lusaka, Zambia and has opened a second store in Lusaka in 2005. Massmart is South Africa's sixth largest retail company; however, it is ranked third when including its wholesale and distribution and buying alliance operations of general consumer goods. Its retail business consists of discount stores and wholesale outlets. Massmart is planning to expand further across the rest of Africa. It is currently engaged in seven southern African countries with its wholesale operations.

The share of food in total retail sales is high for most supermarkets in Botswana, Namibia and Zambia (Table 2.3). The proportion of food sales to total sales is about 90% for Spar and Pick 'n Pay and varies between 62 to 90% for Shoprite in Zambia, Botswana and Namibia (Table 2.3).

Table 2.3 Share of food in total retail sales 2007

Country	**Supermarket**											
	Shoprite*			Pick 'n Pay			Spar			Woolworths		
	Gross sales (million euro)	% Food sales	% Non-food sales	Gross sales (million euro)	% Food sales	% Non-food sales	Gross sales (million euro)	% Food sales	% Non-food sales	Gross sales (million euro)	% Food sales	% Non-food sales
Botswana	24	62.2	37.8	39	90	10	34	82.8	17.2	41	10	90
Namibia	131	72.8	27.2	28	90	10	18	90	10	9	neg	100
Zambia	23	90	10	0	0	0	-	-	-	N/A	N/A	100

*Source: Planet Retail (2004) & supermarkets annual reports 2007; * Shoprite Brand; - Unavailable, neg=negligible, N/A=no food sales, *Supermarkets are in various brands such as Checkers and Shoprite brands. The data in Table 2.4 pertains to the Shoprite brand.*

Owing to these findings one can deduce that supermarkets might have an impact on the food systems in these countries even though supermarkets mainly cater for high to middle-income segments of the population in Zambia and almost all segments of the population in Botswana and Namibia. The food handled includes both fresh and processed foods in all categories (meat, milk, fresh fruit and vegetables, processed fruit and vegetables and milled grain products). In Botswana, Namibia and Zambia, there are both multinational, local chain and independent supermarkets involved in food retailing. Below is a description of the type and number of stores in each case study country.

2.5.1 Zambia

In Zambia there are both multinational, local supermarket chains and independent supermarkets involved in food retailing. Supermarkets in Zambia consist of the South African chain stores (Shoprite and Spar) and local supermarket chains (Melissa) and smaller independent supermarkets such as cash and carry stores (Table 2.4). The multinational supermarkets are found in major towns such as Lusaka and major provincial towns.

Table 2.4: Supermarkets (selling food products) in Zambia

Supermarket name	Number of stores	Urban (Lusaka)	Rural towns	Origin
Shoprite	18**	4	14	South Africa
Melissa	3	3	0	Zambian
Spar*	2	2	0	Franchise
Independent supermarkets	Several	Several	Several	Zambia

*Source: survey results. * Commenced operations in December 2003 ** Shoprite owns 18 supermarkets and one wholesale shop (Megasave)*

Supermarkets in Lusaka and its suburbs include chain stores such as Shoprite, Melissa and much smaller independent supermarkets such as Kabwata Cash and Carry (Table 2.4). Spar Zambia is a franchise that started operations in December 2003. It is still a fairly small operation but has plans to increase the number of stores to ten in the next two years. From the information supplied through interviews, Shoprite on Cairo Road in Lusaka caters mainly for customers on foot (mainly urban working people and also poorer customers), whereas Shoprite, Manda Hill targets the upper-middle class and the elite. It has ample parking available for motor vehicles. The Manda Hill centre opened on 28 October 1999 and with an area of 22 260 m^2 is the largest shopping centre of its kind in Zambia. The centre is visited by an average of 400 000 shoppers monthly. Apart from Shoprite, other well-known South African stores such as Game, Woolworths and Pep Stores are also found in Zambia.

Shoprite is the largest supermarket retailer in Zambia. The first store was opened in Lusaka in 1995. It owns 18 stores, each with floor space of about 2 000m^2 and total retail sales of about US$ 30 million (Table 2.5). Shoprite (Zambia) is a subsidiary of Shoprite, South Africa and the stores are built on a similar concept to those in South Africa. The stores are large supermarkets with fresh food counters and an in-store bakery. The bakeries operated by Shoprite supermarkets seemed to be very popular since one finds long queues of people waiting to buy bread. It was evident that small traders also buy their bread stocks here for resale in the “Ntembas” (kiosks) in estates in Lusaka city.

This is because the price of bread is much lower compared to other shops in the same area.

Table 2.5: Shoprite supermarkets in Zambia

Name	**Number of stores**			**Retail sales (US$ million)**		**Sales area (sq.m.)**	
	2002	2003	2007	2002	2003	2002	2003
Shoprite	18	18	18	32	30	36 000	36 000
Hungry Lion	7	7	7	2	2	700	700
Total	25	25	25	34	32	36 700	36 700

Source: Shoprite annual report (2007) Planet Retail (2004)

Even though food retail accounts for between 60 to 90% of the sales in supermarket stores such as Shoprite (Table 2.3), supermarkets are not yet very important in the marketing of fresh agricultural products in Zambia compared to other local markets. Key informants estimated that for crops such as tomatoes and potatoes, over 75% are still marketed through other market channels (farm gate, street vendors, traditional wholesale markets and other local markets). This finding concurs with Haantuba (2003) who found that the traditional market outlets were very important and the most significant channel responsible for commercialisation in Zambia. According to the Haantuba study, about 10 to 25% farm produce is sold directly by farmers through the traditional market channels, and middlemen through the same markets handled 75% of farm produce. The only major setback in these markets is that grades and standards are hardly used and these markets are prone to price fluctuations as a result of fresh produce flooding the market. This is because the horticultural produce produced under rainfed conditions matures at the same time. There is need to improve these markets as most of the produce (75%) is sold through these markets.

2.5.2 Namibia

Supermarkets in Namibia include the large supermarket chains from South Africa (Shoprite, Pick ’n Pay, Spar, Woolworths) and locally owned chain supermarkets (Woermann Brock), and independent supermarkets such as Eloolo Value Supermarket and Lucky Stores, among others (Table 2.6). The supermarkets are spread out in Windhoek and its suburbs, in other urban areas and in rural towns (Table 2.6). Traditional wholesale markets for fresh fruit and vegetables such as the Johannesburg fresh-produce market (RSA) or Soweto (in Zambia) are not present in Namibia. Some large-scale farmers who produce horticultural products such as onions and tomatoes under rainfed conditions or limited irrigation prefer to transport their produce to the Johannesburg or Cape Town fresh-produce wholesale markets in South Africa some 1300 km away. These farmers prefer these markets because the markets are easily accessible and farmers can sell large amounts of produce at once reducing transaction and transportation costs.

Multi-chain stores operate branches in other towns such as Walvis Bay, Katima Mulilo, Gobabis and Oshakati in the northern region. Supermarkets that are involved in selling fresh and processed food products includes Shoprite, Pick 'n Pay, Spar and other local supermarket chains such as Woermann Brock, independent stores in residential neighbourhood areas and convenience stores located in filling stations.

The location of the stores whether in the city centre or poorer areas such as Katutura determines the size of the stores and product lines to be found in the stores. Shoprite is the largest retailer in Namibia followed by Spar when evaluated in terms of the number of stores and sales area (Table 2.7).

Table 2.6: Supermarkets (selling food products) in Windhoek, Namibia

Supermarket Name	Number of stores	Urban (Windhoek)	Other urban and/ Rural towns	Origin
Spar	23	5	18	South Africa
Shoprite (formats) Sentra OK Foods and Grocer Checkers Shoprite supermarkets Others	 10 12 3 8 15	 1 2 3 4 -	 9 10 0 4 -	 South Africa
Pick 'n Pay	9	4	5	South Africa
Woolworths	5	1	4	South Africa
Woerman & Brock	15	11	4	Namibia
Fruit and Veg City	3	2	1	South Africa
Other independent supermarkets	many	many	many	Namibia

Source: Survey results (2005) and Namibian Agronomic Board (2004)

Table 2.7: The top five supermarkets in Namibia

Supermarket name	**Retail sales (million euro)**	**Number of stores**	**Sales area (sq. metres)**	**Sales by product**	
				%food sales	% Non food sales
Shoprite	131	48	46 300	72.2	27.8
Pick 'n Pay	28	9	7 200	90	10
Spar	18	23	14 000	90	10
Woolworths	9	5	4 000	5	95
Woermann Brock	-	15	-	90	10
Local Independent supermarkets	-	many	350>	90	10

Source: Planet Retail (2004) and survey results (2005)

The supermarket chains tend to import products from South Africa and globally, and to source directly from local producers. Wheat-flour products, maize-flour products and most of the pasta products were sourced locally from local manufacturers. Many smaller supermarket stores, locally owned, were located in residential areas because most people use public transport to shop, so they find these stores convenient. People buy products as they go home from work. These stores were much smaller and had one to two till points and stocked fewer product lines. The smaller independent supermarkets procure processed food products through wholesalers and FFV from wholesalers and directly from farmers. Some independent supermarkets are located in the city centre. These are large, and import products from South Africa and other countries of the world as well. A description of two major supermarkets in Namibia is given below:

Shoprite Holdings runs a number of store formats in Namibia such as Shoprite supermarkets, Checkers superstores, Usave discount stores (three shops opened in 2003), OK Grocer supermarkets, OK Foods supermarket, OK MiniMark convenience stores, Value supermarkets and Hungry Lion fast food outlets. It is the largest South African supermarket operating in Namibia. Most of the stores feature most or all of the following departments - butchery, bakery, delicatessen, fresh fruit and vegetables and fast foods. The assortment of products depends on store size, customer profile and the area where the store is located. The number of stores has increased from 41 in 2002 to 48 in 2004, whereas retail sales have also grown from 60-million to 83-million euros in the same period (Table 2.8).

Table 2.8: Shoprite supermarkets in Namibia

Type of supermarket	Number of stores			Retail sales (million euro)		Sales area (sq. m.)	
	2002	2003	2004	2002	2003	2002	2003
Super stores Checkers	3	3	3	9	11	9 000	9 000
Supermarkets							
OK Foods	4	4	4	10	12	4 800	4 800
OK Grocer	6	6	7	13	16	4 800	4 800
Shoprite	8	8	8	14	18	12 000	12 000
Value	10	10	10	7	8	8 000	8 000
Neighbourhood stores Sentra	10	9	9	6	7	6 000	5 400
Convenience stores OK MiniMark	-	2	3	-	4	-	500
Discount stores Usave	-	3	4	-	7	-	1 800
Total Food Retailing	41	45	48	60	83	44 600	46 300

Source: Adapted from Planet Retail (2004) and survey results (2005)

The second most expansive supermarket in Namibia is Spar with 23 stores. Spar is spread over all the provinces of Namibia (Table 2.9). Spar supermarkets in Namibia are run by independent retailers and supervised by Spar Group Limited, South Africa.

Table 2.9: Spar supermarkets in Namibia

Spar supermarkets	Number of stores			Retail sales (million euro)		Sales area (sq. m)	
	2002	2003	2004	2002	2003	2002	2003
Total food retailing	20	20	23	14	18	14 000	14 000

Source: Planet Retail (2004) and Agronomic Board (2005)

Supermarkets in urban and residential areas offer a wide range of fresh products, processed food products and non-food items. As in Shoprite, most stores feature most or all of the following departments - butchery, bakery, delicatessen, fresh fruit and vegetables and fast foods.

2.5.3 Botswana

The South African supermarkets such as Shoprite (with most of its brands - Shoprite, Checkers, OK Foods and Super save), Spar, Pick 'n Pay, MetCash and Woolworths, dominate the Botswana retail market. Local supermarket chains such as Payless, Choppies and smaller independent stores such as cash and carry and convenience stores located in filling stations are also important in the Botswana retail market (Table 2.10). As in South Africa, the modern retail sector handles about 50 to 60% of the food retail in major towns such as Gaborone, Francistown, Kasane and Maun, and in urban villages such as Mochudi, Lobatse, Molopolole and Kanye (Exploratory survey results, 2004). In the rural areas and rural villages, the general dealerships are more important in food retailing even though most villagers tended to shop in major towns when the opportunity arises.

There are no operational wholesale markets for fresh fruit and vegetables as in the case of South Africa and Zambia. Street vendors are important markets for retailing fresh fruit and vegetables. Street vendors purchased fruit and vegetables directly from farmers, wholesalers and from large supermarket chains for resale. This is because prices on the supermarkets shelves for FFV were normally lower than those of the street vendors. The street vendors are especially important to farmers in villages situated near the urban centres because this marketing channel is easily accessible to small-scale farmers. This channel may have begun to shrink especially as the larger supermarket chains keep their businesses open until very late making it difficult for the street vendors and smaller retailers to exploit the time slots when these big shops were closed (for example some supermarkets were open from about 08:00 to 22:00 hours from Monday to Sunday and public holidays). This may have taken away the advantages the street vendors and other small retailers had over supermarkets by selling to customers when the big retailers had closed.

Table 2.10: Supermarkets in Botswana

Supermarket name	Number of stores	Urban (Gaborone)	Other and/ rural towns	Origin
Shoprite*	3	1	2	South Africa
Payless	4	4	0	Botswana
Spar	26	8	18	Franchise/ supervised by Spar South Africa
Metro Cash & Carry (wholesale) METSEF**	12 3	1 2	430 (Viva stores & other general dealers- franchises)	Metro South Africa (original company from Germany)
Checkers OKFoods	2 3	1 3	1 (Francistown) -	South Africa
Choppies	27			Botswana
Woolworth foods	3	3	0	South Africa
Fairways	7	1	6	Botswana
Pick 'n Pay (family stores) Score supermarkets	2 16	2 4	0 12	Franchise Pick 'n Pay owns over 50% shares
Other independent supermarkets	many	many	many	Botswana

*Source: Survey results (2004); **METSEF (these are trade centres that sell to both consumers and other traders on wholesale)*

According to one respondent, "supermarkets use fresh produce to attract customers to their stores; to do this supermarkets price their fresh produce at cost or below cost. In some situations the prices in the wholesale may be higher than those in supermarkets. This could occur because supermarkets have power and negotiate better prices from their suppliers compared to smaller businesses which order small quantities." Generally prices of FFV in supermarkets in Botswana are lower than those of street vendors. This implies that supermarkets may be beneficial to consumers in a country such as Botswana, which is not self-sufficient in production of FFV, dairy and other crop products. According to the key informants, with more supermarkets having invested in the food market in Botswana, food prices have been lowered as competition for the consumers' pula intensifies. These observations concur with what other studies carried out in countries in the European Union such as UK (Cooper, 2002; Dobson *et al*., 2003) found namely that consumers' benefit from supermarkets trading activities, while some producers and suppliers may be negatively affected by some practices of supermarkets.

Some major South African supermarkets have only recently entered the Botswana market. For example, Pick 'n Pay opened its first family franchise store in December, 2003. Before this, Pick 'n Pay had and still has a stake in the Score supermarkets which have a strong presence in Botswana (Score has about 16 supermarkets in Botswana). Score supermarkets have been in operation in Botswana since 1980. Shoprite has also increased its presence in Botswana in the last three years by using its OK franchising store banners (about three OK food stores have been opened in Gaborone in partnership with local companies) in the past three years (2004-2006).

Spar is the largest retailer in Botswana dealing in food with a total of 26 stores and retail sales of about 32-million euros in 2003 (Table 2.11). Spar supermarkets are spread over all districts of Botswana. The stores are found in all towns such as Gaborone, Kasane, Maun, Francistown, and in urban villages such as Mochudi, BDF camps, Ghanzi, Lobatse and Molopolole. Independent retailers under Spar Group Ltd, South Africa, operate Spar in Botswana. About five years ago Spar was the main retailer in food products in Botswana but in the last two years Shoprite and Pick 'n Pay has invested in the country which implies that competition has become stiffer.

The number of supermarkets investing in Botswana has increased dramatically in the last five years. According to one wholesaler, Gaborone and Francistown are overtraded (a large number of supermarkets selling to a fixed population). The entrance of many of these chain supermarkets has led to the closure of some of the smaller stores (Key informants, 2004). The number of small businesses that have closed could not be verified quantitatively because of a lack of data, as there were no public records of such closures. The benefits of these increased FDI investment by supermarkets for countries such as Botswana are that owing to the large number of retailers, competition among retailers is very high which may have pushed down prices of some food products.

Table 2.11: Spar supermarkets in Botswana

Type of supermarkets	Number of stores			Retail sales (million euros)		Sales area (sq.m.)	
	2002	2003	2004	2002	2003	2002	2003
Super stores Superspar	4	4	4	6	8	4 800	4 800
Supermarkets Spar	20	20	20	19	22	15 000	15 000
Neighbourhood stores Kwikspar	2	2	2	2	2	800	800
Total Food Retailing	26	26	26	27	32	20 600	20 600

Source: Planet Retail (2004)

2.5.4 Formats of South African supermarket expansion in SADC countries

The South African supermarket chains choose various strategies and retail formats to enable them to penetrate and grow in SADC countries (Tables 2.6, 2.8 and 2.11). The use of multiple formats for penetration of different market segments is a common practice among retailers worldwide (Arda, 2006; Howell, 2000). For example, Shoprite has adopted a number of retail formats to cater for the needs of different consumer segments and as a means of expansion and diffusion into poorer regions in the South African market as well as internationally. The Checkers Hyper format is used to penetrate the high to medium consumer segments in South Africa and countries such as Botswana and Namibia. The supermarket format is used to expand into medium to low income areas, whereas the discount stores such as Usave are specifically designed to target low income consumers in poorer areas and countries.

According to supermarket growth and expansion literature, supermarkets first start in high to medium income niches and as competition among other food retailers increases supermarkets begin to move from urban towns and expand into smaller towns and into poorer areas in the same country and from rich countries to poor countries in developing countries (Weatherspoon & Reardon, 2003; Reardon & Berdegué, 2002). The latter development comes with an emphasis on low prices and austere presentation, and the opening of chains of hard discount stores. The strategy includes small discount stores in densely populated areas, which avoids transportation needs of consumers, narrower choice, and packaging in small quantities to allow poor consumers to afford the products (Arda, 2006; Colla, 2003).

2.6 A historical overview of supermarket growth in SADC

In the following section, a historical analysis of individual major South African supermarkets is provided.

2.6.1 OK Bazaars

OK Bazaars introduced the concept of the supermarket in South Africa in 1948 (Strydom, 1989). Supermarket growth was slow in the early years, as shown in Table 2.12. By 1986, OK Bazaars had reached R2-billion ($0.3 billion) turnover; 62.5% contribution was from food sales, 11.8% sale of clothes, 9.9% household goods, and 15.8% sale of furniture and appliances. Probably because of a lack of focus on specific product lines, OK Bazaars began to experience problems and began to make losses. Shoprite Holdings took over OK Bazaars in 1997, consisting of 139 OK Bazaar stores and 18 Hyperamas from South African Breweries. At the time of takeover, OK Bazaars was making a loss of R 20-million ($2.9m) per month (Botha, 1997) which Shoprite inherited and managed to turn around into profit-making supermarkets. Now OK Bazaars does not exist, it has become part of Shoprite Holdings Ltd.

Table 2.12: Growth and development of OK Bazaars in South Africa

Year	Number of stores	Comments
1927	1	Year when first store opened
1929		Listed on JSE
1937	14	
1950	35	
1951	35	Ownership changed to Cohen /Miller and Leon/Fox families
1967	100	
1973		OK Bazaars bought by South African Breweries
1986	205*	164 department stores and supermarkets, 26 furniture stores, 7 Hyperamas, 6 House and Home and 2 filling stations

Source: Strydom (1989)
** 200 stores in South Africa, 2 in Swaziland, 1 in Lesotho and 1 Namibia.*

2.6.2 Checkers

Checkers was established in 1956. At the time of opening, Greatermans, the parent company of Checkers, was a major force in the South African department store business. The first four Checkers stores were mostly clothing-oriented, with 66% of shelf space allocated to clothing and the rest to grocery lines. Price discounting, which had at that time just been introduced in the United Kingdom and the United States of America, was not to be part of the business philosophy of Checkers. The results of the first year of business were dismal with a total deficit of R400 000 or $57142.9 (Strydom, 1989).

Raymond Ackerman, then still a manager in the Greatermans group, visited the USA to acquaint him with the supermarket trade and its trends in that country. On his return, he was put in charge of the Checkers supermarket operations. Checkers then changed its business philosophy to that of price discounting and strong growth followed. In 1966, Ackerman left Checkers to start his own supermarket discounting operation, Pick ’n Pay. At that time, there were 85 Checkers supermarkets across South Africa. Because of several corporate takeovers and management disputes, Checkers was not operating well and it was the weakest among the large three supermarket operators (OK Bazaars, Pick ’n Pay and Checkers) in the late 1970s.

In the years that followed, Checkers continued to struggle in its trading. In 1984 personnel motivation was very low. It was during this time that Checkers was incorporated as part of the Tradegro group and this marked its great turn around. The original Checkers was taken over by Shoprite in 1993 (Business Times, 2002).

2.6.3 Shoprite Holdings Group

The Shoprite group of companies started operations with the acquisition of 8 Cape-based supermarkets in 1979 at their headquarters in Cape Town run by the Rogut family (Business Times, 2002). It had an annual turnover of R12million ($1.7million), which now stands at R39.3billion ($5.6billion) (Shoprite Holdings Ltd, 2007). Presently, Shoprite Holdings Ltd has spread to all the provinces of South Africa. It has also spread to the black townships in South Africa. It mainly caters for the middle and low-income segments of the population and it mainly acts as the price leader. Shoprite operates in all SADC countries except for the Democratic Republic of Congo (DRC) and the Seychelles. It also has a presence in non-SADC countries such as Egypt, Ghana, Uganda and India. The number of Shoprite supermarkets and other retail businesses is shown in Table 2.13. Outside South Africa, the company has its strongest SADC presence in Namibia (6.2% of all stores), Zambia (2.5% of all stores) and Botswana (1.7% of all stores). The group has a wide range of retail formats operating under brand names such as Shoprite (supermarkets), Checkers, OK Furniture, Hungry Lion, OK Foods, OK Grocer, Sentra, Value, Mega Save and Buying Partners.

This supermarket chain has grown phenomenally, mainly through acquisition and buy-out of smaller retail supermarkets. The original Checkers was one of four big acquisitions by Shoprite. It acquired Grand Bazaars in 1990, followed by Checkers in 1993, Sentra in 1995 and an ailing OK Bazaars in 1997, from the South African Breweries (Business Times, 2002). The takeovers and acquisitions have also been used as a means of expansion. For example, Shoprite acquired the loss-making state run supermarket chain owned by the Zambian government to set up the present Shoprite supermarkets in Zambia. The favourable FDI conditions, which were afforded the group by the Zambian government, such as tax holidays, were a major catalyst in their being able to establish themselves in Zambia. Its latest acquisition is the Tanzanian operation of Pick 'n Pay's subsidiary, Score supermarkets in 2002 (The Economist, 2004). Shoprite has also expanded through franchises in other countries such as Namibia. The franchising brands include Sentra, 8' Till Late, Value and Megasave (these were consolidated under the OK banner). The franchising is only in southern Africa.

Shoprite uses its distribution centres[9] (DCs) in Cape Town and Gauteng, South Africa, to source and distribute its merchandise. Importation of products is done through the DCs to stores in South Africa and other African countries. For fresh fruit and vegetables, Shoprite uses Freshmark, its own fresh-produce procurement company, which operates as

[9] Central purchasing centres for supermarkets. Most of the merchandise is sourced centrally and then distributed to its stores across South Africa and other places where its supermarkets are located.

a handler for imported and domestically procured fruit and vegetables via nine distribution centres in southern Africa. In 2002, 90% of all fresh produce was bought directly from producers and distributed via these distributions centres. These warehouses also supply other Shoprite stores in neighbouring African countries.

Table 2.13: Type and number of Shoprite Holdings in RSA, the SADC and other countries (2007)

Country	Shoprite (supermarkets)	Hungry Lion (Fast food restaurant)	Checkers (supermarkets & Hyper)	OK Foods	Other*	Total
Angola	3				5	8
Zambia	18	7	0	0	0	25
Namibia	8	2	3	3	47	63
Botswana	4	7	1	5	6	23
RSA	297	80	135	18	462	992
Lesotho	4	2	0	0	7	13
Swaziland	2	1	0	0	2	5
Tanzania	7	0	0	0	0	7
Mozambique	3	1	0	0	1	5
India	1	0	0	0	0	1
Ghana	0		0	0	3	3
Mauritius	1	0	0	0	0	1
Madagascar	7	0	0	0	0	7
Malawi	2	2	0	0	6	10
Zimbabwe	1	0	0	0	0	1
Egypt	7	0	0	0	0	7
Uganda	3	0	0	0	0	3
Total	368	102	139	26	539	1174

Source: Shoprite Holdings Ltd (2007), Annual report
Other includes: OK Furniture, OK Grocer, Sentra & Value, Megasave, House & Home (SA), 8'Till late, OK MiniMark and Buying Partners*

The Shoprite group employs more than 28 500 permanent employees and some 36 800 temporary and casual workers. It has a turnover of R39.3-billion (US \$5.6-billion[10]) and has stores in 16 African countries. It is the largest retailer in Africa and therefore it has an impact on the consumption and production of food in the countries where it has invested. Shoprite is a force to reckon with in the agrofood sector in the SADC. The spread of Shoprite/Checkers in Africa is set to continue. According to Whitey Basson (chief executive of Shoprite), "Africa has wealth. Its lack of infrastructure is an advantage to us because we can expand without competition." The future and the role of this giant group

[10] 1 USD =R 7. South Africa's economic situation and the strength of its currency, the rand, have improved considerably since 2001. The rand declined from an average of R4.30 to the US dollar in 1996 and reached R13 to US dollar in late 2001. It strengthened considerably to R6.09 in 2004 (Ntloedibe., 2004a)

in the food-retailing business in Africa will remain important in the coming years (Shoprite Holdings Ltd, 2006).

2.6.4 Pick ’n Pay

Pick ’n Pay was established in 1967 and registered on the JSE in 1968 (Pick ’n Pay Stores Limited, 2002). The group now operates through three divisions; the Retail division, the Group Enterprise division and Franklins Australia, each with its own managing director and management boards (Pick ’n Pay, 2007). Through franchising it has grown and spread in South Africa and other countries of Africa as shown in Table 2.14 and Table 2.15. Pick ’n Pay retail chains started in 1967 and by 1994 there were 148 stores. In 2007, there are a total of 706 stores in Africa and Australia with a turnover of R 39.3-billion ($ 5.62-billion). Pick ’n Pay has increasingly used franchising in its expansion in South Africa and other countries. Pick ’n Pay trades under several brands such as Score and Boxer, which have had mixed success in Africa. It sold its Score stores in Tanzania to Shoprite and moved to Mozambique, where it is setting up two of its brands — Score and Pick ’n Pay.

Table 2.14: Growth of the Pick ’n Pay retail supermarket chain in SA and SADC countries

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Number of stores										
Corporate Franchise	148 1	249 6	222 47	237 125	216 237	234 185	224 176	221 193	332 139	391(504) 157(192)
Total selling area (000 m^2)										
Corporate Franchise	392 1	514 8	497 52	488 88	465 153	497 162	492 187	503 206	678 173	748 (875) 187 (224)
Total no. employees (000)	21.8	21.7	22.2	25.3	25.1	25.2	24.7	24.5	27.3	31.0 (49.2)

Source: Pick ’n Pay (2004) and Note: floor space in 1000m^2; Figures in brackets are for 2007

It also has a stake in the 56-store TM chain in Zimbabwe (as part of the Meikles Africa group), Botswana and Namibia. All of these have been successful, including those in Zimbabwe, where inflation has boosted the operation rather than undermined it. However, the group is focusing its core efforts on the South African market, which it describes as still being the most lucrative on the continent (Games, 2003). The Pick ’n

Pay supermarkets in SADC are located in Botswana, Swaziland, Zimbabwe and Namibia. Of its total turnover, the rest of Africa accounts for less than 8% (Pick 'n Pay, 2006)

Table 2.15: Type and number of Pick 'n Pay stores in SA and SADC (2007)

Country	Hypermarkets	Supermarkets	Family stores (franchise)	minimarkets	Other*	Total	% in each country
Zambia	0	0	0	0	0	0	0.0
Namibia	0	0	13	0	0	13	1.8
Botswana	0	0	3	0	16	19	2.7
RSA	16	159	190	35	217	617	75.8
Lesotho	0	0	0	0	0	0	0.0
Swaziland	0	0	1	0	5	6	0.8
Tanzania	0	0	0	0	0	0	0.0
Mozambique	0	0	0	0	0	0	0.0
Malawi	0	0	0	0	0	0	0.0
Zimbabwe	0	0	0	0	56	56	7.6
Total	16	159	207	35	294	711	100

Source: Pick 'n Pay (2007)
**Other include Boardmans, Boxer supermarkets, Score supermarkets, TM supermarkets in Zimbabwe and Franklins in Australia*

2.6.5 Spar

Spar, a multinational Dutch company, started operations in the Netherlands in 1932 (Spar, 2003). Spar can best be described as a buying group. Spar retail is independently owned by retailers who have signed a voluntary trading agreement with Spar in the country of operation. Spar international is the umbrella buying and marketing organization. Supermarkets under Spar form one of the largest food retailers in the world with 17 500 stores in 32 different countries, employing 180 000 people throughout Europe, the Far East, Africa and South America. Spar International sales have reached US$ 25billion making it one of the largest retailers in the world (Spar, 2003).

Spar in South Africa started in the 1960s. Spar retail in South Africa and other African countries is independently owned by retailers who have signed a trade agreement with Spar South Africa. Spar South Africa operates six distribution centres that supply goods and services to 700 Spar stores in Africa (Spar, 2003). It operates three store formats: Spar (for neighbourhood shopping; floor space; any size from 700 m^2 to 4 000 m^2), Super Spar (one stop shopping; floor space; 1300 m^2) and Kwikspar (for everyday convenience; floor space; 300 m^2 to less than 700 m^2). The Spar group controls 26.9% of the market share in retail in South Africa. It also operates in countries such as Botswana, Swaziland, Namibia, Zambia and Mozambique. Independent retailers who operate under Spar enjoy support from the mother company in South Africa such as obtaining goods at low prices due to the massive buying power of the Spar group, strong brands created by Spar, promotional activities ensuring that owners of Spar retail make profits. The retailers operating under Spar also obtain technical support, advanced information and logistics technology and management support from Spar South Africa.

2.6.6 Woolworths

Woolworths is a South African-based retail group founded in 1931 that operates locally and internationally through two subsidiaries, namely Woolworths (Propriety) Limited and Country Road Limited (Woolworths Holdings Ltd, 2006). It deals in products such as shoes, clothes, textiles, cosmetics and food. Woolworths has a turnover of R 14 billion ($2 billion) and employs 14 243 people in its stores (Woolworths Holdings Ltd, 2006). In Africa, Woolworths stores are found in South Africa, Botswana, Kenya, Lesotho, Mauritius, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe. In most of these countries it operates franchises and it is mainly confined to the urban areas and caters for the upper income segments of the population and mostly sells private brands (own label products). The number of stores in each country in Africa is shown in Table 2.16.

Table 2.16: Woolworths stores in Africa

Country	Number of stores	% of total stores
South Africa	320	92.5
Botswana	11	3.2
Kenya	1	0.2
Lesotho	2	0.6
Mauritius	1	0.4
Namibia	4	1.2
Swaziland	3	0.9
Tanzania	1	0.2
Zambia	1	0.2
Zimbabwe	2	0.6
Total	346	100

Source: Woolworths Holdings Ltd (2007) NB includes food and non-food stores

Woolworths started retailing food in the mid-1990s in South Africa and some SADC countries such as Botswana and Namibia. An organic food range consisting of meat and dairy products was launched in 1999 and has since been expanded to fruit and vegetables and continues to expand. Foods are the largest growing product range in the own label portfolio. Currently, Woolworths offers 300 own label food products in its stores.

2.7 Retail sector supply chains

There are three main forms taken by players in the retail sector, these include buying groups, wholesalers and own labels.

Buying groups

Leading operator Massmart operates two major buying alliances, Shield and Furnex, alongside its wholesale network. Shield and Furnex both serve over 600 members and retail outlets. Buying alliances play an important part in South Africa and SADC, as there are still a large number of independent supermarkets and informal sector retailers such as corner shops, street vendors, hawkers and Spaza shops. Spar operates as a buying group as already described in section 2.7.5 supplying to independent retailers who operate under the Spar logo.

Wholesale

Wholesale outlets such as Metro Cash and Carry and specialised wholesalers play an important role in the South African market and SADC as a source of merchandise for the retail shops (independent supermarkets, informal retailers such as kiosks, small shops and spaza shops). Wholesalers play a major role in the procurement of grocery products, and fresh fruit and vegetables. Some supermarkets such as Shoprite have their own distribution wholesale network for the procurement of fruit and vegetables. Suppliers deliver mainly to wholesale or distribution centres where products from various suppliers are collected before being shipped out to chain stores or sold to independent retailers.

Own labels

All major South African retailers (Shoprite, Pick 'n Pay, Spar, Metro, Woolworths) have their own-label (private-label) products. Own-label products encompass all merchandise under a retailer's brand. The brand can be the retailer's own name or a name created exclusively by that retailer. In some cases, the retailer may belong to a wholesale group that owns the brands available only to members of the group (Berges-Sennou *et al*., 2004). It is the retailer who owns and controls the brand (traditionally it was the role of the producer), and different retailers do not sell identical private-label products unlike when they sell manufacturers brands. Own-label products are mainly sold under the company logo in the economy price range. Thus, the development of own-label products does not only alter the relationship between producers and retailers, but also affects competition between retailers because own labels become an additional way of differentiating between retailers. Woolworths is developing a more up market ready meal range in partnership with UK retailer Marks & Spencer.

2.8 Drivers of supermarket growth and diffusion in Africa and the SADC

In most developing countries changes in food retail systems have come about as a result of globalisation, trade liberalisation and foreign direct investment. In Africa rapid growth and diffusion of supermarkets is observed in east and southern Africa (Weatherspoon & Reardon, 2003). The growth and diffusion of supermarkets and other large-format stores in retailing food and non-food products in African countries and especially in SADC has been influenced by both demand and supply-side factors. Demand-side factors include population growth and urbanization, increased income and middle class and relative political stability. Supply-side factors include market liberalisation, foreign direct investment, and introduction of new technologies, competition and market-access conditions. These factors are discussed in more detail below:

2.8.1 Population growth and urbanisation

The world population, especially in developing countries, is in a phase of rapid urbanisation, a process projected to continue during the next two to three decades (United Nations, 2003). Most of the population growth in the world in the next 30 years is expected to be in urban areas. According to the World Urbanisation Prospectus

(United Nations, 2003), population growth will be particularly rapid in the urban areas of the developing countries, averaging about 2.3% per year during the period 2000-2030. Africa is also experiencing rapid urbanisation and a growing middle-income group in these countries' populations.
Southern African countries (Botswana, Lesotho, Namibia, South Africa, Zambia and Swaziland) have experienced increases in their total population and phenomenal urbanisation (Table 2.17). Approximately 52.4% of the population in these countries resided in urban areas in the year 2000 (United Nations, 2003). During this time, among these countries, South Africa had 55.5% of its population residing in urban areas and Botswana followed closely with 50.2%. Urbanisation in these southern African countries has developed rapidly and it is estimated that by the year 2030 about 70% of the South African and 65.7% of Botswana's population will reside in the urban areas. Generally, by the year 2030, 67% of the region's population will reside in the urban areas. Some countries in the SADC, such as Zambia and Malawi have not experienced such a great growth in its urban populations. Currently Zambia has about 40% and Malawi has about 33% of their populations residing in urban areas (United Nations, 2003).

The increasing urbanisation and incomes have led to a shift in the diet of consumers from staples to non-staples (fruit, vegetables, dairy products, meats and oils), according to Reardon and Barret (2000). Now urban consumers demand high quality, processed easy-to-cook food in order to save time, which is a scarce commodity among the working class in urban areas especially with the increased involvement of women in the labour force. Supermarkets and other large-format stores seem to have evolved to cater for the needs of the growing urban populations.

Table 2.17: Total population, urban population and urbanisation rates in SADC countries 1981-2003

Country	Year					
	1981			2003		
	Total Pop (million)	Urban population (million)	% Urban	Total pop (million)	Urban population (million)	% urban
SADC	132.1	36.5	27.7	228.4	84.7	37.1
Botswana	1.0	0.2	17.7	1.8	0.9	49.5
Namibia	0.8	0.2	29.1	2.0	0.6	32.5
South Africa	29.9	14.4	48.2	45.0	25.8	57.2
Zambia	6.2	2.5	40	10.8	3.8	40

Source: FAOSTAT (2004)

2.8.2 Globalisation, market and trade liberalisation policies

Globalisation and liberalisation policies (such as reduced tariffs and free trade arrangements) are major drivers of the changes observed in the agrofood systems in many parts of the world including the developing countries. Globalisation describes the recent impact of innovation in communications (such as internet, e-commerce) and transport systems (improved air freight) on trade and growing interdependence of countries due to economic sophistication, specialisation and increased output. These innovations have caused countries to reduce protection between blocks of trading countries and to adopt policies of liberalisation (Robbins & Ferris, 2002). Free trade regulations negotiated under the World Trade Organisation (WTO) and previously the General Agreement on Tariffs and Trade (GATT) have resulted in nations reducing barriers to trade and their prohibitive conditions for trade with other nations.

Globalisation and liberalisation among other factors have resulted in changing agrofood systems in SADC countries. Most countries in the SADC have undertaken some form of economic reform since 1991 to date. For example Zambia, Malawi, Botswana, South Africa and Namibia have liberalised their economies. Liberalisation and privatisation policies prescribed by the International Monetary Fund (IMF) and the World Bank, which have been implemented by these countries since the 1990s, have facilitated the involvement of the private sector in various sectors of the economy including agriculture.

For example, since 1991 the Zambian government has implemented economic and structural reforms to improve economic growth. Changes of policy from a controlled economy to a free market economy in the 1990s allowed many private firms to invest in the economy. The macroeconomic policy changes (such as freeing the exchange rate, monetary policy and fiscal policy) and changes in agricultural policies implemented by the Zambian government facilitated entry of the private sector into many sectors of the Zambian economy.

Under the policy reforms most economies have become more open. The process of trade liberalisation in South Africa started in the early 1990s and gathered momentum since South Africa became a signatory to the Marakech Agreement of the GATT in 1994. Since 1995, South Africa has significantly liberalised its economy through reform of the import regime and deregulation of the agricultural sector (Lewis, 2001). As a result of the ongoing process of trade liberalisation, the South African economy has opened up significantly. Other countries in the SADC, such as Zambia, Botswana, Malawi, and Namibia have also liberalised their economies facilitating imports and exports within the region and the rest of the world. For example, in Zambia under the Structural Adjustment Programme the government embarked on a radical programme of trade and industrial policy reform in 1992. All licensing and quantitative restrictions on imports and exports were eliminated. Tariffs were reduced and the tariff structure was simplified (University of Zambia, 2004). This meant that Zambian producers were exposed to competition from imported products from other countries.

With increased globalisation and trade liberation there has been concerted efforts for countries to integrate and form trading blocks in both developing and developed countries. For southern Africa, various countries have entered into partnerships to promote trade and other forms of co-operation. South Africa and the European Union (EU) negotiated a free trade agreement (FTA) in 1999. The EU also opened up its markets to poor developing countries including some SADC countries in 2001 under the "Everything but Arms" (EBA) initiative. SADC member states are pursuing an FTA since 2000 which should become operational by 2008-2015. A country such as Zambia is a member of several trade blocks such as the common market for eastern and southern Africa (COMESA), SADC and the WTO. Zambia's trade with COMESA countries averages around 15% of total Zambian imports, about 7 to 9% originates from Zimbabwe. In the SADC region, the share of Zambia's imports from South Africa averages about 43% of Zambia's imports (Republic of Zambia, 2002). There has been an increase in cross-border trade between Zambia and its neighbours, especially in agricultural produce. Research carried out by COMESA (2001) on informal cross-border trade shows that approximately $60 million worth of agricultural produce was traded in the year ending 1998 without government records of these transactions (Haantuba, 2003).

Botswana, Lesotho, Swaziland, Namibia and South Africa are members of the Southern African Customs Union (SACU). SACU has been in existence since 1910. The agreement allows member countries privileges such as duty-free circulation of goods, grants transit rights across South Africa's territory and sharing of customs revenue according to laid-down policy. The SACU agreement was renegotiated in 2002 to cater for the needs of member countries in a changing world. Lesotho, Namibia and South Africa have also formed a common monetary area (CMA) signed in 1969. The integration of SADC countries into various groups is expected to accelerate economic growth through enlarged domestic markets, better competition and efficient use of resources.

Market and trade liberalization in SADC countries have facilitated FDI, which in turn has had a major impact on the growth and expansion of supermarkets into these countries as already discussed in section 1.3. A number of South African firms have adopted franchising as a means of investing and a business format for expansion into other African countries (Saunders, 2004). Franchising is a very popular form of investing. It is well developed in developed countries (US, Canada) but it is also becoming a popular means of investing by companies from developed countries into economies in transition and least-developed countries such as those of Latin America and Africa. It is linked to the current trend of globalisation of world trade. Co-operation with economies in transition or even those in developing countries in the form of franchising still represents very interesting possibilities for foreign investors with a successful business concept (Randenković-Jocić, 2002). Franchising is a business technique that permits rapid and flexible penetration of markets, growth and capital development and is particularly effective in development of small and medium enterprises. Franchising may be defined as a contractual arrangement under which an entrepreneur or enterprise (the franchisor), who has developed a system for conducting a particular business, allows another entrepreneur or enterprises (the franchisee) to use that system in accordance with prescriptions of the franchisor, in exchange for a fee or other monetary consideration (WIPO Magazine, 2003).

South Africa as a leader in franchising in Africa, boasts an impressive record with 56% of its franchise concepts exported to African countries. Recent trends show that the three most favoured franchise sectors are: food services, retailing and entertainment and leisure, respectively. Franchising stimulates entrepreneurship; and its structured support system brings about skills development, job creation and the empowerment of its people as training the franchisee is part of the package (Saunders, 2004).

According to the Franchise Association of Southern Africa, the largest franchise sector in South Africa is fast food, representing 29% of the franchise industry. An example of a successful franchising operation is "Famous Brands," which has recently doubled its number of restaurant outlets from 562 to 1040. The Famous Brands franchise model includes a manufacturing facility that supplies bakery, butchery and sauce products to franchises including Steers and Wimpy's (hamburger restaurants), Church's Chicken, Debonairs Pizza, Brazilian Coffee and House of Coffees (Ntloedibe, 2004b). Franchising has also been used with tremendous success by various South African supermarkets such as Shoprite, Pick 'n Pay and Woolworths to expand in South Africa, SADC and other African countries. For example since 1994, the number of Pick' n Pay franchise stores have grown from 1 to 187 in 2003 (Table 2.15). This franchise format has been used to expand in Botswana, Namibia and domestically in South Africa in the former townships.

2.8.3 Information, communication and technological change

The agriculture sector in many developing countries has been undergoing change and among the core changes in the food supply chain of the 20th century are its integration, control systems and its increased productivity (Lang, 2003). Bio-technological advances have dramatically affected farm-input industries (e.g. seed and chemicals) and, increasingly, the distribution channels from farm to table. Advances in information technology, packaging, processing, storing and transport have greatly contributed to this revolution. Downstream improvements in transport, storage and packaging technologies have fashioned growth of capital-intensive agro-industries in wholesaling and retail sectors (Narayanan and Gulati, 2002).

As mentioned above, in the SADC multiple chain supermarkets, such as Shoprite, Pick 'n Pay, use their fresh-produce sourcing companies such as Freshmark (Shoprite) or special wholesale companies such as Freshco and distribution centres (Spar, Shoprite, Pick 'n Pay) to centrally source fresh produce and other merchandise from contracted farmers and/or suppliers. These products are then distributed to their stores in South Africa and other African countries. This is possible because of the improvement in technology, information systems and communication. Investments in cold storage facilities by these giant firms enable them to source produce (fruit, vegetables and dairy produce) from farmers and store and distribute them. This enables them to stagger the supply and provide all-year-round supply and maintain stable prices. This is beneficial for consumers as the supply of fresh produce can be availed throughout the year at affordable prices.

The use of information technology in sourcing and e-commerce has implications for the participation of small producers in the supply chain. Large retail companies such as Shoprite/Checkers are changing from the use of paper-based and verbal purchase orders to electronic delivery of all purchase orders to suppliers (Shoprite, 2003). This implies that processors and farmers have to invest in technology in order to access the supply chain and comply with set standards or be left out. Policies at both private and public level and improved institutional arrangements are required to make the system operational for these groups and at the same time keep the new markets working efficiently in order to tackle developmental issues such as job creation and poverty alleviation.

2.8.4 Domestic policies

Most sub-Saharan African countries such as Zambia, Botswana, Kenya and Tanzania undertook economic reforms in the form of structural adjustment programmes as prescribed by the Bretton woods institutions (World Bank and IMF) in the early 1990s (Lewis, 2001). These policies involved privatisation of some services provided by government to private sector provision. Also involved in this privatisation and market liberalisation were the sale of loss-making government parastatals, removal of foreign exchange controls and favourable foreign direct investment policies to attract foreign capital. These changes opened up opportunities for private sector involvement in the economies of these countries (Lewis, 2001). Investments have been made in agriculture, manufacturing and food retail. The opening up of the economy created opportunities for multiple chain supermarkets from South Africa and other countries to invest in these countries. In some cases, the favourable conditions offered to foreign firms gave them an advantage over local firms as in the case of Shoprite Zambia.

2.9 Issues related to the expansion of South African supermarkets in SADC

As South African supermarkets expand in SADC and other African countries several issues of concern have been raised as discussed below.

2.9.1 Importance of South African foreign direct investment in Africa

Most governments in Africa have tried to improve their policies to make them more conducive to foreign investors in order to attract foreign direct investment (FDI) to their countries (University of Cape Town, 2000; Thomas, 2004). The share of Africa in global FDI is less than 2% even though there has been a general increasing trend in the flow of FDI. According to a survey by UNIDO (2003), European Union (EU) companies are the largest investors in Africa. They provide about 40% of the investments in the region. South African companies follow as the second most important group of investors in sub-Saharan Africa, both in terms of number of projects and amount of capital. South African companies account for a third (33%) of all African investments. In total, three quarters (75%) of all foreign investments in the survey region originate from these two sources (UNIDO, 2003). Therefore, South African foreign direct investment into Africa could contribute to the much-needed capital to increase economic growth in the region as already discussed in section 1.3

South African supermarkets are expanding and making a contribution to FDI activities in SADC and other regions of Africa. This expansion is seen as offering tremendous opportunity to suppliers (farmers and food processors) in host countries to increase their output and income, as supermarkets offer a ready market for domestically produced products. But the major issue has been their sourcing strategies, which may exclude local producers, especially small-scale farmers and processors.

2.9.2 Potential exclusion of small producers/processors

These issues relate to high transaction costs that make it difficult for supermarkets to do business with small-scale farmers and small processors. The rapidly changing procurement systems of supermarkets may contribute to further marginalisation of producers.

2.9.3 Rapid change of supermarkets' procurement systems

Another issue that is closely related to the potential exclusion of small-scale farmers and processors from the supply chain is the rapid rate of change of the procurement systems of supermarkets. Supermarkets tend to consolidate and change their procurement systems very rapidly as shown in Figure 2.4. This phenomenon has been observed in Latin America and Central America (Berdegué *et al*., 2004) and in the emerging economies of central and Eastern Europe (Dries *et al*., 2004) and in Africa for the major South African supermarkets (Survey results, 2004). Shoprite completed its centralisation of its FFV supply chain in Zambia in 2005. In this model, when supermarkets start operating in a region, they may have decentralised procurement strategies that may allow sourcing from individual producers and the wholesale markets. But as supermarkets increase their market share, they consolidate their procurement and may begin to use specialised wholesalers and preferred suppliers. The key objectives of procurement officers/supermarket managers in their procurement practices in the region may be to increase market share vis-à-vis other supermarkets and vis-à-vis traditional food retailers (hawkers, food vendors and wet markets).

The supermarkets achieve this objective by:

- Lowering purchase costs
- Lowering transaction costs
- Maintaining consistency of supply
- Ever-increasing volume of supply
- Raising quality and differentiating products (brand making).

As the supermarkets adopt new procurement systems, it might be easier for small-scale farmers and processors to be included in the supply chain of supermarkets than to remain on the supplier list of these emerging markets. This could be as a result of rapidly changing procurement systems, for example, changing from decentralised to centralised with associated grades and standards. These changes can take as little as six months making it very difficult for small-scale producers and processors to cope with the changes and hence they may end up being dropped from the list as suppliers. As supermarkets move from decentralised to centralised procurement systems, there is a need for increasing technological, managerial, organisational and financial changes that small-scale farmers and processors need to implement in order to be included and/or remain on the procurement systems of supermarkets. As markets mature, supermarkets tend to move towards centralised procurement with increased use of private grades and standards as well as use of contracts with suppliers. These practices may further increase the cost of doing business for the small producers and processors resulting in many of them falling off the supply chain of supermarkets.

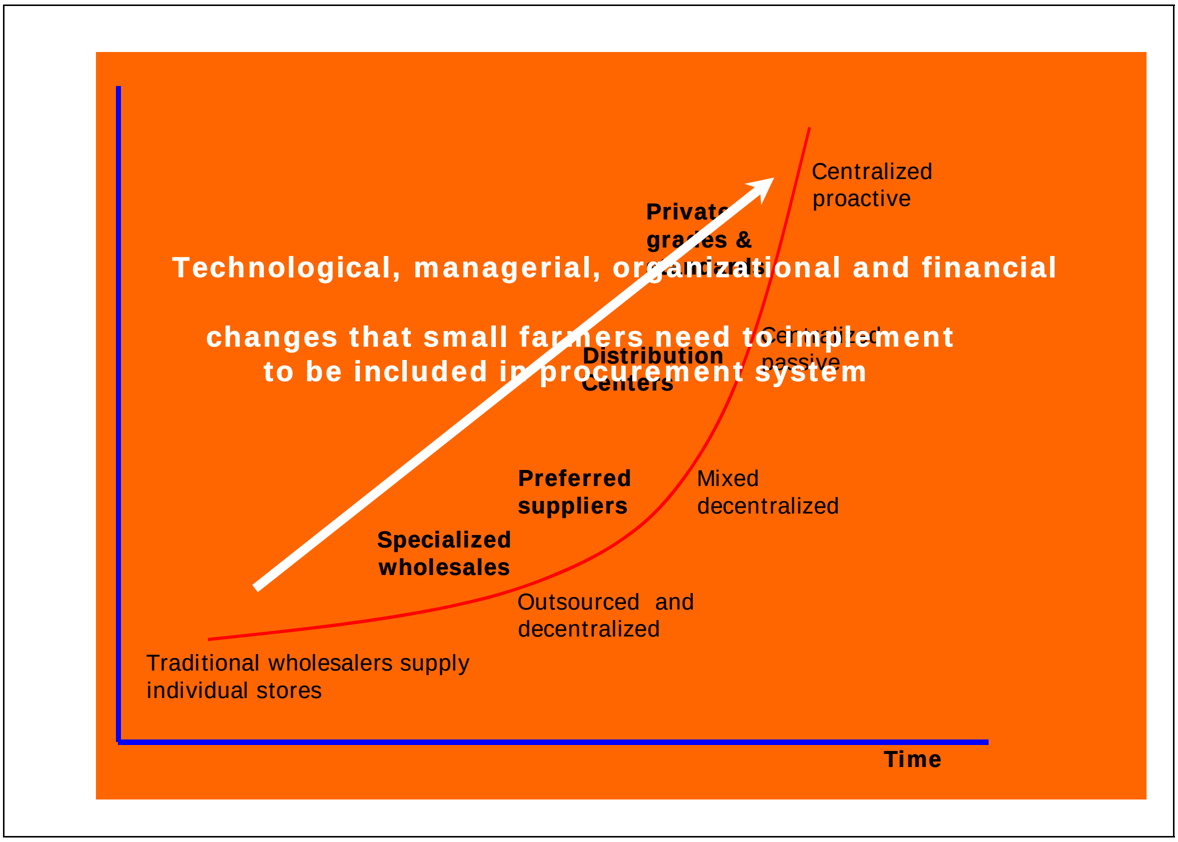

Figure 2.4: Evolution of procurement systems
Source: Berdegué et al. (2004)

Most supermarkets in the SADC are probably in mixed stages of procurement development. Some supermarkets such as Shoprite, Pick 'n Pay, Spar and some domestic chain supermarkets are already using central distribution centres to source and procure products for their stores. As this happens, there are increased consolidation and concentration in the retail sector with increased inability of small-scale producers and processors in accessing these markets. This also results in complex relationships between farmers, processors and retailers that may necessitate formulation of policy and other interventions to facilitate fair trade.

2.10 Trade impacts of supermarkets in SADC

The expansion of South African supermarkets into SADC may both create trade and in some cases divert trade. The presence of multinational retailers is likely to lead to increased trade in food products. The quest for year round supply of fresh products has encouraged joint-venture partnerships and strategic alliances among firms in the northern and southern hemispheres thereby increasing trade in these products (Regmi & Gehlhar, 2005). South African supermarkets in SADC countries have been importing fresh products such as fruit to their stores in other African countries to meet the deficit in production, which implies the procurement activities of South African chain supermarkets have created trade in these products in the region. Alliances between retail firms and producers can open export opportunities for both small-scale and large-scale farmers and manufacturers. For example Namib Mills in Namibia was able to export its flour products to Angola through Shoprite[11]. Lack of domestic supply that meets the demand of supermarkets may bring in imports to meet the void. Later on, as these supermarkets develop their supply chains, the organization of production and distribution on regional rather than on a national level may increase cross-border trade leading to trade creation. Imports of food products into newly established foreign supermarkets have been a feature of transition until a local supply base is built (Vorley *et al*., 2007). Centralised procurement encourages international trade and provides opportunities for producers' especially small-scale producers in their respective groups to grow and achieve scale economies, depending on where the global sourcing is located (Vorley *et al*., 2007).

The presence of multinational supermarkets in a country may also encourage food manufacturers to expand their manufacturing units into the region by assuring steady markets. For example Foodcorp from South Africa has invested in Zambia to process fresh fruit and vegetables into processed products such as tomato sauce and so on. The establishment of the processing plant in Zambia will lead to reduced imports of these products. Bokomo, a South African company involved in milling grain products, invested in Botswana in 2004 and has started producing for the Botswana market. This investment will reduce trade (divert trade) in these products from South Africa and the world as supermarkets in Botswana source from the local processing company.

[11] Van Graan, K., Managing Director, Namib Mills (Pty) Ltd, Namibia. Personal communication 25 April 2004

The use of private labels (own labels), especially when the purpose is to guarantee quality is often accompanied by strict control of suppliers of raw materials and can as a result inhibit trade. The use of own labels by South African supermarkets is increasing. The increasing use of own labels can have a negative impact on food trade, that is reduce imports and thus trade. The certification of quality assurance requires adhering to national and retail private standards, therefore the use of local materials to ensure quality may inhibit trade i.e. reduce imports.

Trade rules or policies may, inhibit (divert) trade. The supermarkets' decision whether to source locally or import products is influenced by the rules (policies) governing trade in these products internationally as well as locally. Trade policies that ban imports in certain products, or impose tariffs or quotas may divert trade in these products as supermarkets use local producers.

2.11 Summary

Supermarkets' growth and expansion is occurring rapidly in developing countries and is commanding a large share of the food-retail market in these countries. In Africa, supermarkets have been in existence in South Africa from as early as the 1950s, which implies that supermarkets are not a new occurrence in southern Africa. The initial growth and expansion of supermarkets has been gradual over time. However, in the last 15 years there has been a marked rapid growth and expansion of supermarkets in South Africa.

The major supermarkets have grown rapidly and increased their market share by buying out the smaller supermarkets, franchising and forming partnerships with other retail companies both in South Africa and other African countries. South African multinational chain supermarkets have spearheaded the current expansion into SADC and other African countries. The major chain supermarkets from South Africa have moved into and invested in the SADC and Africa since 1994 when South Africa changed from apartheid to democratic rule. Since 1994, major South African supermarket chains (Shoprite, Pick 'n Pay, Spar and Woolworths) have a presence in one or more African countries. In individual countries, there were local multiple chain and independent supermarkets involved in food retailing. Supermarkets (both local and multinational) handled large quantities of food especially in urban areas. The proportion of food sales to total sales in most supermarkets was about 90% for Spar and Pick 'n Pay and varied between 62 to 90% for Shoprite in Zambia, Botswana and Namibia.

In Africa, supermarkets are important as markets for farmers and processors products but there is the problem of potential exclusion of small-scale farmers and processors. Due to the fact that African countries depend on agriculture as the backbone of their economies and small farmers are the majority, exclusion of these farmers is a real threat to livelihoods, poverty alleviation and more so to rural development in general. The major issues of concern are the strategies used by supermarkets in sourcing and procurement of products. These may have a negative impact on small farmers and small processing firms by excluding them. The sourcing and procurement practices may lead to stifling of agriculture and industry if centralised procurement systems rely on imports instead of purchasing from local producers. Various mechanisms such as contracting, farmers groups and government intervention by setting efficient regulatory institutions could help in reducing transaction costs making it possible for small farmers to participate in the supermarkets' supply chains.